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DEPARTMENT PLEASE PASS TO OPIC for BBRERETON AND
RGANDHI

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SUBJECT: DRC RESPONSE TO OPIC-SUPPORTED INVESTMENT FUNDS

REF: (A) STATE 5672

(B) STATE 5207

¶1. (U) Post is pleased to comment on the proposed OPIC-supported investment funds described in refs A and B. Both funds support the Democratic Republic of the Congo (DRC)'s overall economic development framework, target key sectors in the DRC for private investment, and would enhance access to credit. The ECP Africa Fund II, predecessor to the Emerging Capital Partners fund being considered in ref B, includes an investment in Anvil Mining, one of the largest copper mining companies in the DRC. However, post has no specific information regarding the local reputation of ECP or the other prospective fund manager.

¶2. (U) The DRC's development framework includes implementation of the Poverty Reduction Strategy Paper (PRSP), approved in mid-2006 by the IMF and World Bank boards, and the government's five-year program, approved by the National Assembly in February 2007. The five-year program, known as the five pillars or "Cinq Chantiers" in French is based on the PRSP and focuses heavily on President Kabila's five priority areas: infrastructure; employment; education; water/electricity; and health.

¶3. (U) Private sector development remains a key objective of the Government of the DRC (GDRC) as a means to foster economic growth. At the same time, the DRC's investment climate remains highly challenging. The DRC's long-term economic growth will depend on improving its investment climate as a means to stimulate and encourage private sector-led development.

¶4. (U) The focus sectors of the proposed OPIC-supported investment funds reflect many of the DRC's key growth sectors. The DRC's recent economic growth (5.6% in 2006, 6.3% in 2007, and an estimated 8% in 2008) has largely been driven by three sectors: mining; trade and commerce; and construction and public works. The DRC contains vast natural resources (including minerals, some petroleum reserves, and timber), combined with considerable arable land. The country also has extensive, undeveloped hydroelectric power potential. Decades of mismanagement and neglect have left much of the DRC's infrastructure collapsed. The GDRC has estimated the country's infrastructure needs at \$14 billion. (Note: In early 2008, the DRC concluded a more than \$9 billion agreement with a consortium of Chinese companies to create a joint venture to exploit mining resources and develop Congolese infrastructure. End Note)

¶5. (U) Investors are slowly beginning to return to the DRC, though much new FDI remains highly concentrated in a few sectors, such as mining. Greater diversification of the DRC's economic base, along with improvements to basic infrastructure, will be essential for the DRC's long-term economic development.

¶6. (U) Limited access to finance remains a leading constraint for increased investment in the DRC. Most foreign investment continues to be financed externally. Credit for private investment has been further tightened as a result of the global financial crisis. The DRC's financial services sector remains small, though efforts are

being made to reform and restructure the banking sector, improve financial sector oversight and reinvigorate financial market and credit instruments. Given limited options for financing of viable investments in the DRC, the proposed OPIC-supported investment funds would serve to provide qualified businesses with important new options for investment products.

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